

BATTLE CREEK AREA TRANSPORTATION STUDY



Springfield, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
September 30, 2008**

BATTLE CREEK AREA TRANSPORTATION STUDY

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INDEPENDENT AUDITORS' REPORT

February 13, 2009

Policy Committee
Battle Creek Area Transportation Study
City of Battle Creek, Michigan

We have audited the accompanying basic financial statements of the ***Battle Creek Area Transportation Study*** as of and for the year ended September 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Study's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ***Battle Creek Area Transportation Study*** as of September 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Study has not presented Management's Discussion and Analysis (MD&A) as required supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be, part of the financial statements.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the ***Battle Creek Area Transportation Study***. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.



FINANCIAL STATEMENTS

Battle Creek Area Transportation Study

Statement of Net Assets

September 30, 2008

Assets

Current assets:

Cash	\$ 25
Accounts receivable	21
Due from grantor agencies	26,657
Due from City of Battle Creek	<u>59,449</u>
 Total current assets	 <u>86,152</u>

Liabilities

Current liabilities:

Accounts payable	4,792
Accrued payroll	2,225
Due to grantor agencies	12,916
Accrued compensated absences	<u>6,392</u>
 Total liabilities	 <u>26,325</u>

Net assets

Unrestricted	<u><u>\$ 59,827</u></u>
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The accompanying notes are an integral part of these financial statements.

Battle Creek Area Transportation Study

Statement of Activities

For the Year Ended September 30, 2008

Program revenue - operating grants and contributions

Federal grants:

Federal Highway Administration \$ 127,261

Federal Transit Administration 27,434

State grant 5,789

Local government contributions:

City of Battle Creek 24,819

Calhoun County Road Commission 16,257

City of Springfield 2,262

Other revenue 16

Total program revenue 203,838

Expenses - transportation studies

Data collection and analysis 51,200

Long range transportation planning 29,857

Short range transportation planning 2,133

Special projects and studies 41,443

Public involvement 12,813

Program development and management 58,116

Non-grant activity 1,251

Total expenses 196,813

Change in net assets 7,025

Net assets, beginning of year 52,802

Net assets, end of year \$ 59,827

The accompanying notes are an integral part of these financial statements.

Battle Creek Area Transportation Study

Statement of Cash Flows

For the Year Ended September 30, 2008

Cash flows from operating activities:

Receipts from other governments	\$ 212,349
Payments to employees	(156,539)
Payments to suppliers	<u>(55,810)</u>

Net cash provided by operating activities -

Cash, beginning of year 25

Cash, end of year \$ 25

Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 7,025
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,212
Changes in assets and liabilities:	
Accounts receivable	8,511
Due from City of Battle Creek	(18,527)
Accounts payable	187
Accrued payroll	1,591
Due to grantor agencies	<u>1</u>

Net cash provided by operating activities \$ -

The accompanying notes are an integral part of these financial statements.

BATTLE CREEK AREA TRANSPORTATION STUDY

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Battle Creek Area Transportation Study (“Study”) is an intermunicipality committee organized under Michigan Public Act 200 of 1957. The Study’s purpose is to assist in the development and preservation of a safe, effective, well-maintained, efficient, and economical transportation system for the Battle Creek metropolitan area which minimizes its negative impacts on the physical and social environments and related land use. The Study is not a component unit of any other government.

Basis of Accounting

The Study uses a single proprietary or enterprise fund to account for and report its financial activities. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. The Study follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Study has elected not to follow subsequent private-sector guidance.

Cash

The Study’s cash consists of \$25 in petty cash on hand. The Study does not maintain its own depository accounts. The City of Battle Creek (a member government of the Study) maintains accounting records, deposits cash receipts and processes cash disbursements through the City’s pooled cash accounts. The amount reported as due from City of Battle Creek at year end represents the balance of the Study’s interest in the pooled cash account of the City at year end.

Capital Assets

Equipment is recorded at cost and is depreciated using the straight-line method over estimated useful lives of three to five years.

BATTLE CREEK AREA TRANSPORTATION STUDY

Notes To Financial Statements

Compensated Absences

It is the Study's policy to permit employees to accumulate earned but unused vacation leave pay benefits up to a maximum of fifteen days or the equivalent of three normal work weeks beyond the current year's allocation. All vacation pay is accrued when incurred since 100 percent of the unused benefits are payable upon employee separation from service with the Study.

2. DUE FROM/TO GRANTOR AGENCIES

Amounts reported as due from and due to grantor agencies represent the difference between costs eligible for reimbursement and the amount received to date. The details of amounts due from and due to grantor agencies are as follows:

	Due from Grantor Agencies	Due to Grantor Agencies
FHWA, Section 112		
Billed	\$ 10,191	\$ -
2003 cost settlement	-	786
2004 cost settlement	3,276	-
2005 cost settlement	-	3,123
2006 cost settlement	-	3,453
2007 cost settlement	-	2,147
2008 cost settlement	3,983	-
Total FHWA, Section 112	<u>17,450</u>	<u>9,509</u>
FTA, Section 5303		
Billed	\$ 4,856	\$ -
2003 cost settlement	-	197
2004 cost settlement	708	-
2005 cost settlement	-	632
2006 cost settlement	-	757
2007 cost settlement	-	446
2008 cost settlement	883	-
Total FTA, Section 8	<u>6,447</u>	<u>2,032</u>
MDOT, M-Fund		
Billed	\$ 2,451	\$ -
2003 cost settlement	-	383
2004 cost settlement	238	-
2005 cost settlement	-	366
2006 cost settlement	-	548
2007 cost settlement	-	78
2008 cost settlement	71	-
Total MDOT - M-Fund	<u>2,760</u>	<u>1,375</u>
Total	<u><u>\$ 26,657</u></u>	<u><u>\$ 12,916</u></u>

BATTLE CREEK AREA TRANSPORTATION STUDY

Notes To Financial Statements

3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, being depreciated - Equipment	\$ 27,020	\$ -	\$ -	\$ 27,020
Less accumulated depreciation for - Equipment	<u>25,808</u>	<u>1,212</u>	<u>-</u>	<u>27,020</u>
Capital assets, net	<u>\$ 1,212</u>	<u>\$ (1,212)</u>	<u>\$ -</u>	<u>\$ -</u>

4. OPERATING LEASES

The Study leases office space from the City of Springfield (a member government of the Study) under an operating lease. The lease is a ten-year non-cancelable operating lease requiring annual payments of \$4,000 through October 2012. The following is a schedule of future minimum lease payments required under this operating lease as of September 30, 2008:

<u>Years Ending September 30</u>	<u>Amount</u>
2009	\$ 4,000
2010	4,000
2011	4,000
2012	4,000
2013	<u>4,000</u>
Total	<u>\$ 20,000</u>

During the year ended September 30, 2008, the Study had rent expense of \$4,000.

BATTLE CREEK AREA TRANSPORTATION STUDY

Notes To Financial Statements

5. DEFINED CONTRIBUTION PENSION PLAN

The Study provides pension benefits for all of its employees through a defined contribution pension plan. The plan requires the Study to contribute 15% of each qualified employee's base salary to the plan. Plan provisions and contribution requirements are established and may be amended by the Study's Policy Committee. The Study made the required contribution of \$17,649 for the year ended September 30, 2008.

6. RISK MANAGEMENT

The Study is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended September 30, 2008, the Study carried commercial insurances to cover all risks of losses. The Study has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

7. RELATED PARTY TRANSACTIONS

As discussed previously, the Study has entered into certain agreements with member governments as shown below:

City of Battle Creek:	
Health and benefits	\$ 14,061
Administrative services	3,300
Traffic count activity	3,984
Asset management activity reimbursements	664
Mail room postage charges	459
Print shop charges	101
City of Springfield:	
Rent	4,000
Copy machine use	218
Internet access	247
Calhoun County Road Commission:	
Traffic count activity	5,254
Asset management activity reimbursements	664

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SUPPLEMENTAL SCHEDULES

Battle Creek Area Transportation Study
Schedule of Expenses by Funding Source - Budget and Actual
For the Year Ended September 30, 2008

Work Element	Description	Federal Highway Administration			
		PL Funds			
		Project Agreement		Local Match	
		#2006-0001(Z10) (Job#100858)			
		Budget	Actual	Budget	Actual
DATA COLLECTION & ANALYSIS					
1.0000	Data Collection and Analysis	\$ 41,580	\$ 31,739	\$ 9,220	\$ 7,038
1.0040M	Asset Management MDOT 100% funded	-	-	-	-
	Subtotal	41,580	31,739	9,220	7,038
LONG RANGE TRANSPORTATION PLANNING					
2.0428	2030 Long Range Transportation Plan	21,954	20,772	4,868	4,606
SHORT RANGE TRANSPORTATION PLANNING					
2.0520	Short Range Transit Planning	-	-	-	-
SPECIAL PROJECTS AND STUDIES					
2.0601	Transportation Improvement Program	14,491	14,326	3,214	3,177
2.0618	Coord. with Statewide Planning	2,334	1,979	518	439
2.0619	Special Studies	2,495	1,609	553	357
2.0641	Safety Conscious Planning	7,584	5,667	1,682	1,257
2.0641M	MDOT Funded Safety	-	-	-	-
2.0643	Freight Planning	2,532	1,566	561	347
2.0645	Air Quality Planning	3,045	2,635	675	584
	Subtotal	32,481	27,782	7,203	6,161
PUBLIC INVOLVEMENT					
3.0000	Public Involvement and Education	11,202	8,914	2,484	1,977
PROGRAM DEVELOPMENT AND MANAGEMENT					
4.0100	Program Management & Management	41,099	38,054	9,113	8,438
	TOTAL	\$ 148,316	\$ 127,261	\$ 32,888	\$ 28,220

Federal Transit Administration				Michigan Department of Transportation			
Section 5303 Funds				100% Reimbursed			
Project Agreement				Asset Management			
#2006-001(Z9) (#100857)		Local Match		#2006-0001(Z11) + (Z12)		Totals	
Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
\$ 7,171	\$ 5,474	\$ 1,793	\$ 1,369	\$ -	\$ -	\$ 59,764	\$ 45,620
-	-	-	-	20,000	5,580	20,000	5,580
7,171	5,474	1,793	1,369	20,000	5,580	79,764	51,200
3,787	3,583	947	896	-	-	31,556	29,857
2,200	1,706	550	427	-	-	2,750	2,133
3,541	3,501	885	875	-	-	22,131	21,879
253	215	63	53	-	-	3,168	2,686
430	278	108	69	-	-	3,586	2,313
1,853	1,385	463	346	-	-	11,582	8,655
-	-	-	-	1,500	209	1,500	209
-	-	-	-	-	-	3,093	1,913
525	455	131	114	-	-	4,376	3,788
6,602	5,834	1,650	1,457	1,500	209	49,436	41,443
1,932	1,538	483	384	-	-	16,101	12,813
10,042	9,299	2,511	2,325	-	-	62,765	58,116
\$ 31,734	\$ 27,434	\$ 7,934	\$ 6,858	\$ 21,500	\$ 5,789	\$ 242,372	\$ 195,562

Battle Creek Area Transportation Study

Schedule of Allowable Costs

(exclusive of costs incurred by local governments)

For the Year Ended September 30, 2008

	<u>Direct</u>	<u>Indirect</u>	<u>Total</u>
Salaries and wages	\$ 65,508	\$ 35,472	\$ 100,980
Fringe benefits	37,074	20,076	57,150
Office supplies	-	2,181	2,181
Printing and copying	-	230	230
Postage	-	459	459
Membership and subscriptions	-	184	184
Professional services	-	2,942	2,942
Bookkeeping services	-	3,300	3,300
Training and travel	-	2,668	2,668
Communications	-	1,792	1,792
Insurance and bonds	-	3,991	3,991
Rent	-	4,000	4,000
Depreciation	-	1,212	1,212
	<u>\$ 102,582</u>	<u>\$ 78,507</u>	<u>\$ 181,089</u>
Other direct costs	<u>\$ 3,842</u>	79,337	
Indirect costs as a percentage of direct payroll and fringe benefits		<u>76.531%</u>	
Fringe benefits as a percentage of salaries and wages			<u>56.595%</u>
Fringe benefit detail			
Vacation, sick and holidays	\$ 10,593	\$ 5,736	\$ 16,329
Social security and Medicare	5,725	3,100	8,825
Retirement contribution	11,449	6,200	17,649
Health and welfare	8,649	4,684	13,333
Workers' compensation and unemployment	658	356	1,014
	<u>\$ 37,074</u>	<u>\$ 20,076</u>	<u>\$ 57,150</u>

February 13, 2009

To the Policy Committee of the
Battle Creek Area Transportation Study

We have audited the basic financial statements of the *Battle Creek Area Transportation Study* (the “Study”) for the year ended September 30, 2008, and have issued our report thereon dated February 13, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated November 24, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the *Study*. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on November 25, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Study are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 13, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *Battle Creek Area Transportation Study* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned below the "Very truly yours," text.

Battle Creek Area Transportation Study

Comments and Recommendations

For the Year Ended September 30, 2008

In planning and performing our audit of the financial statements of the Battle Creek Area Transportation Study (the “Study”) as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Study’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Study’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Study’s internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Other Matters

Internal Controls – Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Study’s assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government’s unique circumstances.

Battle Creek Area Transportation Study

Comments and Recommendations (Concluded)

For the Year Ended September 30, 2008

As is the case with many organizations of similar size, the Study lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the Study's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the Study's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

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